



Komerční banka, a.s.

Report on Financial Results
as at 30 June 2006



My World.

My Bank.



Major Events

Announced acquisition up to an additional 50% of Modrá pyramida stavební spořitelna in July 2006

On 20 July 2006, Komerční banka (KB) signed a contract regarding the acquisition of up to an additional 50% of Modrá pyramida stavební spořitelna (MPSS) for total consideration of EUR 120 million. KB currently owns 40% of MPSS. KB will become majority shareholder with at least 80% of the registered capital of MPSS. Completion of the transaction is expected during the last quarter of 2006. This transaction is in line with KB's strategic focus on continuing enhancement of its business activities and revenues generation. It represents significant strategic steps in expansion on the Czech market.

Continuing focus on relations with clients

KB joined the Code of Conduct on Relations between Banks and Clients issued by the Czech Banking Association, effective from 1 June 2006. KB has met all the requirements and obligations contained in the Code of Conduct since the beginning of 2005, which was when it introduced its Guaranteed Service Level. Adoption of the Code of Conduct confirms that a transparent relationship between the Bank and its clients is an integral part of KB's long-term strategy.

KB named Corporate Bank of the Year 2006

KB has won the MasterCard Corporate Bank of the Year 2006 competition. This recognition confirms that, thanks to its strong market position, experienced teams and continuous innovations, KB provides its corporate clients with comprehensive financial solutions.

New products and innovated services

Komerční banka continued expanding and innovating its offerings during the first half of 2006:

- A new and advantageous Authorized Overdraft for doctors and pharmacists;
- An increase in the limit for KB EuroPayment from EUR 12,500 to EUR 50,000;
- A new Residential House Programme for housing cooperatives and condominiums;
- Launch of a new guaranteed fund, MAX 6; and
- An enlarged portfolio of SGAM funds offered to KB customers.

Continuing support of culture, non-professional sport and education

In 2006, KB continues as the main partner of Národní Divadlo, the Czech Republic's national theatre. It also continues to support the Czech Rugby Union, the Czech Association of Disabled Athletes, the Prague Zoo and many Czech universities.

Annual General Meeting of Shareholders

On 26 April 2006, KB held its regular Annual General Meeting (AGM). Shareholders approved the Report of the Board of Directors on the business activities of the Bank and the state of its assets for 2005, the annual financial statements together with the proposal for the distribution of the profit for 2005, and the consolidated financial statements for 2005. At the AGM, it was also decided to pay out dividends of CZK 250 per share for 2005, amounting to CZK 9.5 billion. The AGM approved a proposal to allow KB to acquire its own shares up to the 10% of its capital within the price range of CZK 2,000 to 4,500. The shareholders also approved amendments to the Articles of Association, in particular changing the number of members of the Board of Directors from six to five.

Changes in the Board of Directors

Matúš Púll, member of the KB Board of Directors since 5 October 2001, passed away tragically on 23 February 2006. He belonged among the most recognised experts and also personalities in the Czech-French community. In September 2005, he was awarded the French Order of Merit decoration Médaille de Chevalier de l'Ordre National du Mérite.

In April, Jan Juchelka was appointed to the KB Board of Directors with effect from 1 July 2006. Prior to his appointment to the KB Board of Directors Jan Juchelka was a member of KB's Supervisory Board.

Long-term investment via KB's subsidiary Bastion

In March, KB purchased, via its subsidiary Bastion based in Belgium, a long-term amortizing portfolio of receivables owed by the European Commission (EC). The volume of the transaction was EUR 140 million. This transaction improves the diversification of KB's portfolio of low-risk financial assets and achieves an appealing return for this class of credit. Due to the transaction's long-term nature (26 years), it will be refinanced by both loan and share capital funding provided to Bastion by KB. The capital of Bastion was increased by EUR 134 million in July 2006.

Rating upgrade

In May, the agency Fitch Ratings upgraded KB's long-term rating to AA- from A+ and short-term rating to F1+ from F1. After this upgrade, KB became the highest rated bank in the Czech Republic by Fitch Ratings.

The Standard & Poor's agency rated KB as A (long-term), being above the foreign currency Czech sovereign rating, and A-1 (short-term). Moody's Investors Service evaluated KB as A1 (long-term) and Prime-1 (short-term).

Thanks to strong business performance in both retail and corporate banking, total revenues improved by 8%.

Macroeconomic Trends in the First Half of 2006

The macroeconomic picture of the Czech Republic remains similar to the previous two years: solid economic growth accompanied by macroeconomic stability. In the first quarter of 2006, the gross domestic product increased by 7.4%, which was an acceleration from 6.9% growth registered in the last quarter of 2005. The growth was driven primarily by exports, which rose 17% year-on-year, and supported by investments, which rose by 7.1% year-on-year. Household consumption accelerated slightly to 3.4% (after a growth of 2.4% year-on-year in 2005). However, the acceleration of the consumer demand has not created inflationary pressures.

In the first half of 2006, industrial output accelerated to 11.9%, driven in particular by the automotive industry (+ 27.1% year-on-year). The growth in the automotive sector was also positively affected by a moderate revival in economic activity in the euro zone as well as by the full-capacity production of the new TPCA (Toyota Peugeot Citroën Automobile) car factory in the town of Kolín.

These factors also supported exports. In the first half of 2006, exports rose by 12.9%, driven by machinery exports, particularly cars. The pro-export effects of FDI have been the main driver behind both exports and industry growth. The role of companies under foreign control in Czech industry further strengthened, and the share of foreign controlled companies on total industrial sales now amounts to 59%. High oil and gas prices worldwide continue to hit the Czech trade balance, pushing up the growth of imports. The imports rose by 13.8% in 2006 between January and June. As a consequence, the surplus of the trade balance was almost the same on a year-on-year comparison, amounting to CZK 35.1 billion in the first half of the year. The period of rapid improvement in the trade balance thus seems to be over.

The growth of construction in the first half of 2006 was highly volatile. The main reasons for this high and unusual volatility were bad weather conditions (tough winter and March floods) and the impact of fluctuations of statistical bases. For the first six months of 2006, construction output rose by 4.3% year-on-year. Housing construction remained robust, with a growth of flats under construction above 7% year-on-year. Housing construction has been endorsed by the developing mortgage market, growth of loans from construction savings, demographic factors and expected changes in the VAT rate for housing construction as of 2008. The boom on the mortgages market has continued, however, their share on GDP (approx. 10%) remains very low in the European context, indicating that room for further growth still exists.

Along with the stronger consumer demand, retail sales also accelerated, increasing by 6.8% year-on-year in 2006 between January and June. In particular, the increase was driven by high demand for cars and consumer goods. Retail sales have been positively affected by improving labour market conditions, rapid growth in real wages and appreciating currency, with imported goods dominating some segments of the market, e.g. clothing and electronics. Rapid growth of consumer credits promotes retail sales, too. Households are more and more willing to finance their consumption by loans; consumer credits amounted to CZK 89 billion at the end of June 2006, increasing by 35% year-on-year.

The unemployment rate stood at 7.7% as of June 2006, which represented a notable decline from 8.6% a year earlier. Strong economic activity promotes rapid creation of new jobs. However, there is a structural mismatch between vacancies and the free labour force. As a consequence, the share of long-term unemployment in the Czech Republic is above 50% and continues to increase.

Consumer price increase in the first half of 2006 was mainly caused by a year-to-date rise in administered prices of electricity, natural gas, and heat and hot water. In the first six months of 2006, the year-on-year CPI growth was, however, still around the 3% level, standing at 2.8% in June 2006. Producer prices stopped falling in the first quarter of 2006. At the end of the first half of 2006, PPI stood at 1.8% year-on-year. Inflationary pressures continue to be attenuated by strong currency. At the end of May, the CZK reached near record-high levels both against the EUR and USD.

Low inflation allowed basic interest rates to remain at low levels during the first half of 2006. In the January – June 2006 period the basic repo rate stood at 2%. The benchmark rate was raised only in July by 25 bp to 2.25%. The basic interest rate of the Czech business sector stood around the average level of 3M PRIBOR, which was at 2.1%, in the first half of 2006.

KB continued to expand its lending activities. The total volume of client loans outstanding grew by 21% year on year.

Business Activities

In the first half of 2006, KB significantly expanded its business activities. In line with its strategy, the Bank continued to grow in all its business areas. KB acquired 49,000 new clients compared to June 2005 and increased the total number of clients to 1,484,000, of which 1,203,000 represent individual clients. The number of clients using direct banking products also continued to increase. By the end of June 2006, 55% of clients were using at least one direct banking product. The focus on lending activities further increased in the Bank's portfolio, mainly in the retail segment. The outstanding volume of mortgage loans grew by 35%, consumer loans by 20% and small business loans also increased notably by 29% year on year. Lending to corporate clients also showed favourable trends, as the outstanding volume of loans went up by almost 17%. The Bank saw success in its payment card business as well, mainly due to the continuing dynamic growth of credit cards. The number of active credit cards increased by 60% to 149,000.

Cross-selling activities are a crucial part of the Bank's business strategy. The cross-selling ratio, an indicator showing the number of products sold per number of current accounts, increased to 5.07 by the end of June 2006, from a level of 4.77 in the first half of 2005.

Distribution Network

The Bank serves its clients through an extensive network consisting of 360 points of sale for retail clients, 35 business centres for medium-enterprises and municipalities and 8 centres for large corporations. KB continues to optimize its sales network. During 2006, KB plans to open up to 20 branches, especially in large cities. In line with its business strategy, KB enlarged its ATM network with 45 new machines in the first half of 2006. At the end of June, clients were able to withdraw cash and gain access to other services from a total of 618 ATMs.

Direct Banking

Direct banking is one of the most important elements of the multi-channel business approach. It enables the clients to get easy and fast access to the services of the Bank. At the end of June 2006, already 823,000 clients of KB were using Telephone, Internet or PC banking services. This represents 55% of the total client base and a growth by 9% in comparison with the same period last year. The number of clients using Expresní linka phone banking reached 685,000, increasing by 7% year on year. The usage of Mojobanka internet banking increased significantly with the number of clients using this product growing to 324,000, an increase by 25% year on year. Profibanka PC banking was used by 22,900 clients, which is 2% more than in the first half of 2005. Mobile banking service, another successful and innovative product of KB, gained nearly 10,000 clients since its introduction in April 2005. To expand the usage of this unique service, the Bank has added 14 mobile telephone models to the list of handsets that meet the technical requirements of Mobilní banka.

Retail, Corporate and Investment Banking Activities

The main factor behind the sound business performance of KB in the first half of 2006 was continuous improvement and innovation in its offerings to all client segments.

In the first half of 2006, KB continued to expand its lending activities in the segment of individual clients and increased further the volumes of housing and consumer loans. The volumes of outstanding mortgages to individuals grew by 35% to CZK 49.3 billion year on year and outstanding consumer loans went up by 20% to CZK 13.9 billion. The demand for financing through credit cards also remained high in the first half of 2006. The number of active credit cards to individual clients reached 115,000, representing a year-on-year growth of 42%. The total volume of credit card receivables stood at CZK 1.5 billion.

The increase of the cross-selling ratio to 5.07 reflects growing penetration of KB products as well as significant contribution of products from affiliates and third parties. In the first half of 2006, premiums written for life insurance products increased 8% year on year, while sales of non-life insurance policies prepared in cooperation with Allianz grew by 42%. New contracts for building savings sold through KB rose by 81%. KB also registered significant growth in factoring (with turnover up by 39%) and at KB Leasing (turnover up by 113%).

KB continued offering guaranteed funds, which are a very popular investment instrument among its clients. In April, the Bank launched MAX 6 – a new global guaranteed fund. This fund enables clients to share in the growth of bond, equity and real estate markets with a 100% guarantee of return on the investment at the day of the fund's maturity. The fund is intended for conservatively inclined investors who want to participate in the attractive yields offered, in particular, by European bond, equity and real estate markets, but do not want to undertake the risk associated with investment in equity or real estate.

During the second quarter of 2006, KB enlarged the number of SGAM funds offered to its customers. The existing portfolio of seven funds has been enlarged with one money market fund, two bond funds and seven equity funds. Clients can also choose whether to invest in particular industries (IT, finance, raw materials), companies of certain size or different geographical areas.

The Bank has further reinforced its leading position in the small business segment, despite stiff competition on the market. Lending to small businesses has continued to grow rapidly and the volume of outstanding loans rose year on year by 29% to CZK 10.6 billion. Demand for credit cards for entrepreneurs has been very high since this product was introduced on the Czech market in April 2005. As of the end of June, more than 34,000 businesspeople and firms were actively using this product.

In March 2006, KB introduced advantageous financing for doctors and pharmacists. This offering enables them to finance everyday operational needs. Doctors and pharmacists have the option of using authorized overdraft with an attractive interest rate of only 8% – 10% p.a. With a credit limit of up to CZK 3 million, this product can help them weather periods of late payments from insurance companies or other unpredictable situations.

KB's effort to bring its clients from the small business segment a wide range of innovative products was honoured in this year's Golden Crown competition (Zlatá koruna 2006). Profi loan ranked first and the business credit card ranked third in the business loans category. The Efekt package ranked second and the Makro Card ranked third in the day-to-day banking category.

KB has also recorded a solid performance in the segment of Medium Enterprises and Municipalities (MEM). The volume of outstanding loans to MEM clients increased to CZK 48.4 billion, a growth of 11% in comparison with the same period of last year.

In the first half of the year, the Bank increased the limit for KB EuroPayment from EUR 12,500 to EUR 50,000. This enables the clients to benefit from advantageous KB EuroPayment conditions for higher volumes of transactions within the Eurozone.

Since the beginning of April, KB has been offering its new Residential House Programme, which provides significantly easier access to loans for housing cooperatives and condominiums. The programme's main advantage is the high availability of loans, which stems from the minimum requirements for security. The Residential House Programme primarily offers the opportunity to obtain a loan without any security or guarantees, depending on the level of debt per housing unit and the locality.

During the first half of 2006, KB maintained its prominent position serving Czech corporate clients. As a result of its activity in this area, KB won the MasterCard Corporate Bank of the Year 2006 competition. This recognition confirms that, thanks to its strong market position, experienced teams and continuous innovations, KB provides its corporate clients with top quality and comprehensive financial solutions.

As of June 2006, the amount of loans outstanding to large corporates went up by 17% year on year to CZK 82.1 billion.

In the first six months of the year, KB participated in several important deals. The Bank granted a EUR 125 million long-term syndication loan for OKD-Mining, the largest Czech coal mining company. KB also won the tender for financial services organized by the VEOLIA Group, a strategic client of KB and SG. KB will cooperate primarily with Veolia Water and Veolia Transport, together comprising around 25 companies.

KB offers investment banking services to corporate clients based on the global expertise of Société Générale investment banking. KB has noted a very positive increase in the usage of E-trading products. Almost 4,000 corporate clients now use this service, which shows a 24% increase since July 2005.

Unconsolidated Financial Results (IFRS)

Profit and Loss Account

For the first half of 2006, KB posted an unconsolidated unaudited net profit of CZK 4,688 million, a growth of 12% compared to the same period of last year. However, the result was positively impacted by several one-off events. The near 8% improvement in the net banking income was the result of strong business performance in both retail and corporate banking, which was also supported by favourable macroeconomic conditions in the Czech Republic. Despite a surge in the cost of risk reflecting the expansion of the Bank's mass retail lending activities and one-off provision charge connected with a litigation, pre-tax profit grew by 8.4% thanks to higher revenues and to lower operating costs.

Net Banking Income

The Bank's total revenues came to CZK 12,386 million, an increase of 7.6% year on year. This was driven mainly by net interest income, which was up 10.6% year on year. Total fees and commissions grew slightly by 1%. The share of the net interest income in the Bank's total revenues increased to 60%, while that of the fees and commissions went down slightly to 35%.

Net interest income

Net interest income rose to CZK 7,376 million from CZK 6,671 million, an increase of 10.6%. Net interest income benefited most from increasing business volumes, especially in lending (gross loans rose 21.1% year on year). However, rising lending volumes were partially offset by decreasing spreads. The total net interest income from loans grew year on year by 12.1% to CZK 2,240 million, with main contributions coming from mortgages, consumer loans and credit cards. The 3.3% increase in net interest income from deposits was caused mostly by growth in volumes on current accounts. The net interest income from other activities increased 35.5% to CZK 825 million, including a positive contribution from early redemptions of CDOs in the amount of CZK 262 million. The net interest income from investment banking activities tripled to CZK 172 million, mainly thanks to money market operations. The net interest margin remained stable at 3.2% as the improved asset mix and growing volumes offset the low interest rate environment.

Net fees and commissions

Net fees and commissions increased 1.0% year on year to CZK 4,328 million. Non-foreign exchange fees and commissions grew year on year by 1.2% to CZK 3,561 million. Among these, fees from cross-selling products of subsidiaries, sister companies and other partners were the most dynamic, mainly driven by asset management products. Fees and commissions from transactions, which have the largest share of 40% in total fee income, remained stable as the rising fees from direct banking and payment card transactions managed to offset the slowdown in classical channel transactions. Maintenance fees continue to decrease slightly, as clients substitute standard products with packages that are more favourably priced.

Thanks to rising volumes of clean payments, total fees and commissions from FX transactions remained stable at CZK 767 million.

Net profit from financial operations

Net profit from financial operations bounced to CZK 607 million from CZK 394 million in the same period of last year. The result was achieved mainly due to a profit on interest rate and commodity derivatives of CZK 113 million compared to a negative CZK 271 million in the same period of last year. Net profit from foreign exchange operations, which amounted to CZK 281 million, still represents the largest component in the net profit from financial operations and it is mainly generated by client FX spot operations and FX options. Profit from securities and security derivatives declined 32.2% to CZK 213 million; however the lower profit is partially compensated by the net interest income from investment banking activities.

Other income

Other income amounted to CZK 75 million compared to CZK 160 million in June 2005. Other income consists mainly of dividends from subsidiaries, which declined to CZK 31 million from CZK 121 million. The 2005 result comprises extraordinary dividends from IKS KB of CZK 96 million paid out ahead of the sale of the 100% of the shares to SG Asset Management in May 2005.

Total operating costs

Total operating costs declined by 2.0% to CZK 5,564 million affected by a one-off release of loyalty reserves. The cost income ratio thus declined to an extraordinary 44.9% from 49.3% in the same period of last year.

Personnel expenses increased by 2.3% to CZK 2,360 million, as the average number of employees increased by 2% year on year to 7,475 due to expanding business related activities. The development was positively affected by the one-off release of a loyalty reserve, no longer necessary under IAS 19 due to the new structure of employees' benefits.

General administrative expenses totalled CZK 2,440 million, down 3.5% year on year. While costs savings are still in place thanks to a strong focus on rationalizing of processes and operations, expenses related to business activities are increasing. The favourable development in costs was also achieved thanks to some IT expenditures that were postponed to the second half of the year. Excluding these, the general administrative expenses would have remained stable.

Depreciation, impairment and disposal of fixed assets decreased by 9.1% to CZK 764 million. Despite the overall decline in depreciation caused primarily by non-depreciation of assets designated for sale there was no decrease in the investment activities of the Bank.

Cost of risk

Cost of risk includes provisions for loan losses, provisions for impairment of securities and provisions for other risks. In the first half of 2006, the charge amounted to CZK 785 million, which compares to CZK 526 million for the same period in 2005.

Provisions for loan losses increased by 88.2% to CZK 557 million, a development expected by the Bank and in line with the fast-growing mass retail portfolio. As a result, the cost of credit risk on the loan portfolio increased to 36bp from 25bp in the first half of 2005. Due to the changing asset mix, the Bank's credit risk management is being continuously enhanced.

As the restructuring of the CDO portfolio was finalized in 2005, no impairment on securities was recognised in 2006. There was a CZK 151 million charge in 2005.

Provisions for other risks nearly tripled to CZK 228 million, including a one-off provision of CZK 149 million connected with a litigation regarding rental of a branch.

Net profit on subsidiaries and associates

In the first half of 2006, the Bank did not book any profit on subsidiaries and associates. In 2005, the Bank reported a profit of CZK 262 million. The 2005 profit included a positive contribution from the first instalment payment from the IKS sale of CZK 56 million and CZK 185 million of released provisions linked to the sale of a 51% stake in Komerční pojišťovna.

Income tax

Income tax totalled CZK 1,349 million, down 2.7% compared to the first half of 2005. The effective tax rate was 22% and was helped by the Bank's investments in tax optimizing assets. As of January 2006, the statutory income tax rate in the Czech Republic was lowered from 26% to 24%.

Net profit

KB's net profit for the first six months of 2006 amounted to CZK 4,688 million, up by 12.0% year on year. The profit was driven by continuing successful business performance in both retail and corporate banking, continuing cost savings and a positive overall impact of one-off events.

Key Financial Ratios

| | as at 30 June 2006 | as at 30 June 2005 |
|--|--------------------|--------------------|
| Capital adequacy (%) | 12.1 | 14.3 |
| Risk weighted assets (CZK billion) | 272.8 | 233.4 |
| Cost / Income ratio (%) | 44.9 | 49.3 |
| Return on average equity – ROAE (% , annualized) | 20.2 | 18.3 |
| Return on average assets – ROAA (% , annualized) | 1.9 | 1.8 |
| Net interest margin (%) | 3.2 | 3.2 |
| Earnings per share – annualised (CZK) | 247 | 220 |

Balance Sheet

As of 30 June 2006, total assets were at CZK 490.7 billion, showing a growth of 3.7% compared to the same date of last year. Mainly, the increase reflects the growth in amounts due to customers on the liability side and loans and advances to customers on the assets side.

Assets

Cash and balances with the central bank

Cash and balances with the central bank decreased 1.1% to CZK 11.6 billion. The balance of obligatory minimal reserves with the central bank reached CZK 5.2 billion; these bear interest at the CNB's two-week repurchase rate, which increased once to 2.00% from 1.75% in October 2005. In July 2006, there was another raise by 25bp to 2.25%.

Amounts due from banks

Amounts due from banks decreased 8.9% to CZK 214.4 billion. Loans to the Czech National Bank as a part of repo operations decreased 12.9% to CZK 155.4 billion. To the contrary, term deposits with banks increased by 7% to CZK 38.5 billion. The decline in amounts due from banks during the first half of 2006 was also caused by the partial sale of a bond issued by Société Générale SA, the parent bank, in the amount of CZK 5 billion.

Net loans and advances to clients

The pace of growth in net loans and advances to clients (net of provisions) has picked up significantly. Since the end of June 2005, net loans increased by 22.0% to CZK 205.0 billion.

Overall quality of the loan book remains satisfactory. Standard loans increased 24.9% to CZK 183.6 billion and the share in the total loan portfolio reached 87% (85% in June 2005). Meanwhile, the amount of loan volume under special review (sub-standard, doubtful, loss) remained almost stable at CZK 9.4 billion despite strong loan portfolio growth. Thus, at the end of June 2006, loans under special review represented 4.5% of the total credit exposure, down from 5.5% in the same period of last year. The balance of specific provisions for loan losses reached CZK 6.8 billion, up 15.3% and in line with the credit portfolio expansion. The coverage by specific provisions on these loans increased to 66% compared to 57% in the same period of last year, reflecting the growing share of retail activities.

The used value of collateral to client loans remained fairly stable at 40%, with the majority of collaterals being in the form of real estate (approximately 60%).

Securities

The portfolio of total securities increased by 35.9% to CZK 34.3 billion. Securities held for trading increased by 4.4% to CZK 10.7 billion. The rise was caused mainly by debt securities (up 34.1% to CZK 8.6 billion), which made up the major part of the portfolio. The total volume of securities available for sale increased by 75.9% to CZK 20.2 billion, mainly due to the purchase of foreign government bonds (from Greece and Poland). The securities held to maturity slightly decreased to CZK 3.3 billion.

Investments in subsidiaries and associates

Since June 2005, the value of investments in subsidiaries and associates decreased by 20.6% to CZK 1.5 billion. The decline was primarily caused by the sale, completed in September of last year, of a 51% share of the KB subsidiary Komerční pojišťovna to Sogécap, the life insurance business line of Société Générale. As of December 2005, KB incorporated Bastion European Investments S.A. as a new subsidiary with an initial capital of EUR 62,000, 99.8% of which held by KB (and 0.02% by Société Générale). In March 2006, Bastion acquired a long-term amortizing portfolio for EUR 140 million of receivables owed by the European Commission. In July 2006, the share capital of Bastion was increased by EUR 134 million.

Liabilities and Shareholders' Equity

Amounts due to banks

Amounts due to banks increased 5.9% year on year to CZK 22.2 billion, mainly due to an increase in term placements and current accounts, which compensated for the decline in loans due to banks.

Amounts due to clients

Amounts due to clients totalled CZK 377.1 billion, which showed a slight increase of 3.7% compared to June 2005. The volume of primary clients' deposits increased by 5.1% year on year to CZK 371.1 billion. This more than offsets the decline in repo transactions with clients and other payables to customers (-44.2% to CZK 5.9 billion). The volume of deposits on current accounts continued to increase strongly by 11.6% to CZK 238.1 billion and currently represents 64% of deposits. Term and saving deposits remained stable at CZK 100.9 billion. Loans from customers decreased during the period by 17.1% to CZK 32.1 billion.

Securities issued

The volume of securities issued increased by 84.7% to CZK 21.9 billion. The portfolio is entirely represented by mortgage bonds. The rise by CZK 10 billion comprises currently placed issues of mortgage bonds (issued into own book in 2005).

Shareholders' equity

As of the end of the first half of 2006, KB's shareholders' equity amounted to CZK 42.5 billion, a decline by 10.7% year on year. The development was mostly due to the payment of a dividend to shareholders in the total amount of CZK 9.5 billion in June 2006 (see Major Events) and a decline in hedging reserve from CZK 6.3 billion to CZK 1.7 billion as a result of the upturn in interest rates. In June 2006, the Bank bought back less than 0.5% of its shares for CZK 150 million, in line with a resolution approved at the AGM. Shareholders' equity also included the net profit of the current period in the amount of CZK 4.7 billion.

The Bank's share capital remained stable at CZK 19 billion. Total shareholders' equity represents 9% of KB's total assets.

Expected Developments in the Financial Situation

The Bank's financial results in previous years were impacted by significant one-off gains which are not likely to be repeated in the coming years. Management expects, however, that the Bank's business strategy will:

- positively impact upon revenue generation and the level of recurring profitability,
- keep the cost/income ratio close to fifty percent, and
- lead to a slight increase in the cost of risk, as a result of the fast growing retail portfolio, although that will be kept under control and adequate to the Bank's risk profile.

Management also expects that there will be no significant change in KB's strong liquidity position. The Bank will maintain solid capital base despite employing capital by business growth and MPSS acquisition, with a dividend policy of a 40 – 50% payout ratio that is comparable with those of other European banks.

Unconsolidated Profit and Loss Account According to IFRS

| CZK million | 30 June 2006 (Unaudited) | 30 June 2005 (Unaudited) |
|---|-----------------------------|-----------------------------|
| Interest income | 11,542 | 9,845 |
| Interest expense | -4,166 | -3,174 |
| Net interest income | 7,376 | 6,671 |
| Net fees and commissions | 4,328 | 4,287 |
| Net profit/(loss) on financial operations | 607 | 394 |
| Dividends and other income | 75 | 160 |
| Net banking income | 12,386 | 11,512 |
| Personnel expenses | -2,360 | -2,308 |
| General administrative expenses | -2,440 | -2,530 |
| Depreciation, impairment and disposal of fixed assets | -764 | -839 |
| Total operating expenses | -5,564 | -5,677 |
| Profit before provisions for loan and other risk, investment losses and income taxes | 6,822 | 5,835 |
| Provision for loan losses | -557 | -296 |
| Provision for impairment of securities | 0 | -151 |
| Provision for other risk expenses | -228 | -79 |
| Cost of risk | -785 | -526 |
| Profit/(loss) on subsidiaries and associates | 0 | 262 |
| Profit/(loss) before income taxes | 6,037 | 5,571 |
| Income taxes | -1,349 | -1,387 |
| Net profit/(loss) | 4,688 | 4,184 |
| Earnings/(loss) per share (in CZK) | 123.33 | 110.06 |

Unconsolidated Balance Sheet According to IFRS

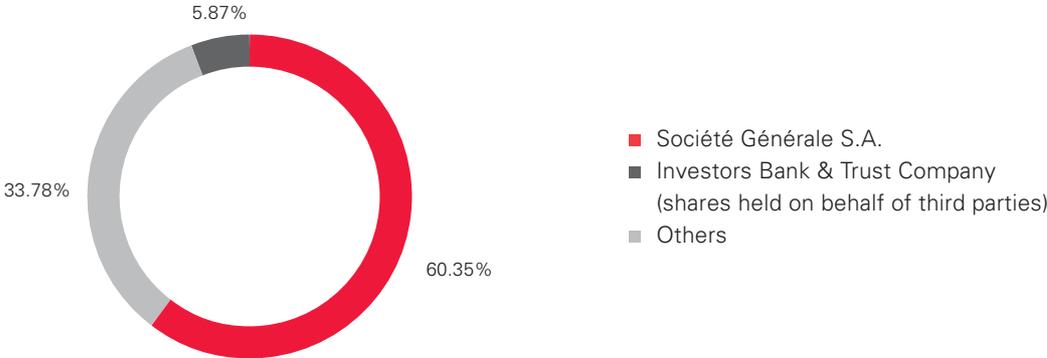
| CZK million | 30 June 2006 (Unaudited) | 30 June 2005 (Unaudited) |
|--|-----------------------------|-----------------------------|
| Assets | | |
| Cash and current balances with the Czech National Bank | 11,650 | 11,777 |
| Amounts due from banks | 214,391 | 235,295 |
| Financial assets at fair value through profit or loss | 10,707 | 10,256 |
| Positive fair value of financial derivative transactions | 8,700 | 15,066 |
| Loans and advances to customers, net | 205,022 | 168,104 |
| Securities available for sale | 20,214 | 11,492 |
| Investments held to maturity | 3,345 | 3,474 |
| Prepayments, accrued income and other assets | 3,495 | 3,723 |
| Income taxes receivable | 740 | 433 |
| Deferred tax asset | 864 | 474 |
| Assets held for sale | 767 | 35 |
| Intangible fixed assets, net | 2,133 | 1,921 |
| Tangible fixed assets, net | 7,120 | 9,021 |
| Investments in subsidiaries and associates | 1,518 | 1,911 |
| Total assets | 490,666 | 472,982 |
| Liabilities | | |
| Amounts owed to banks | 22,163 | 20,925 |
| Amounts owed to customers | 377,056 | 363,652 |
| Negative fair value of financial derivative transactions | 5,398 | 6,296 |
| Securities issued | 21,902 | 11,859 |
| Accruals and other liabilities | 18,656 | 16,329 |
| Provisions | 2,241 | 4,155 |
| Income taxes payable | 0 | 0 |
| Deferred tax liability | 728 | 2,130 |
| Total liabilities | 448,144 | 425,346 |
| Shareholders' equity | | |
| Share capital | 19,005 | 19,005 |
| Share premium and reserves | 23,517 | 28,631 |
| Total shareholders' equity | 42,522 | 47,636 |
| Total liabilities and shareholders' equity | 490,666 | 472,982 |

Rating

| Rating agency | Long-term | Short-term |
|---------------------------|-----------|------------|
| Fitch Ratings | AA- | F1+ |
| Moody's Investors Service | A1 | Prime-1 |
| Standard & Poor's | A | A-1 |

Shareholder Structure

Major shareholders of Komerční banka, a.s. as at 26 May 2006





Komerční banka, a.s.

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